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Financial Markets

Irving Trust

Irving Trust Company
One Wall Street
New York, NY 10015

Economic Research & Planning Division

Friday (Noon) Jan. 16, 1981

Rates were highly volatile this week, as market participants struggled to cope with ambiguous economic data, expectations of a large increase in the money supply for the first week of January (to be reported this evening), and possible financial pressures created by the prospect of an imminent settlement of the Iranian hostage crisis. Under the circumstances, it was difficult to fathom any direction in the markets.

The impact of any settlement of the Iranian crisis on reserves available to banks and on money market rates depends crucially on the amount of funds transferred from blocked accounts at U.S. banks, the timing of the transfer, and the way the transfer is handled. If the funds transferred from banks are held by the Federal Reserve, then the result would be a reduction of reserves, which the Fed would have to offset through reserve-adding open market operations. On the other hand, if the Iranians used the funds to purchase assets (e.g., foreign currencies, Eurodollar deposits, etc.) or goods and services, then the funds would flow back to the banks. In that case, the reserve impact would be minor, though some temporary distortions could well arise.

Compounding the nervousness of market participants was the widespread expectation that the money stock data to be reported Friday night for the week ending January 7 would show a very large increase. It was little comfort that much of the increase was likely to be due to early payment of Social Security checks (increasing both M-1A and M-1B). In addition, an influx of NOW account balances authorized in 42 states at the beginning of the year would depress M-1A by the amount of demand deposits shifted to NOWs (with no net impact on M-1B) and would increase M-1B by the amount of savings-type accounts shifted to NOWs (with no impact on M-1A). In subsequent weeks, the effect of the Social Security payment should tend to be washed out, and the impact of new NOW accounts probably will also be minor. Growth of the aggregates likely will be fairly sluggish. (Note: Withdrawal of the Iranian deposits would have no effect on the money stock, since foreign accounts are already excluded from the money data.)

William C. Melton

Note: The full text of this letter is available to Telerate subscribers on pages 7250-51 on the Monday morning following the Friday date of the letter.

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	1/16/81 (Noon)	Week Ago	Year Ago
Prime Lending Rate at Irving Trust Company	20.00%	20.00%	15.25%
Effective since	1/9/81		
Discount Rate at Federal Reserve Bank	13.00	13.00	12.00
Federal Funds	19.75	19.50	13.63
Repurchase Agreements	19.00	19.25	12.50
U.S. Treasury Issues			
Bills			
3 months	16.00	15.85	12.55
6 months	15.40	15.43	12.76
1 year	14.00	14.01	11.96
Coupons			
2 years	13.20	13.30	11.47
4 years	12.80	13.00	10.72
7 years	12.70	12.64	10.75
10 years	12.50	12.35	10.78
Long Bond	12.20	12.02	10.54
Negotiable Certificates of Deposit-Secondary Market			
1 month	18.65	18.25	13.30
3 months	17.85	17.65	13.45
6 months	16.25	16.20	13.45
1 year	14.90	14.75	12.75
Banker's Acceptances			
1 month	18.65	18.25	13.35
3 months	18.05	17.90	13.55
6 months	16.20	16.25	13.55
Eurodollar Deposits			
1 month	19.75	18.88	14.06
2 months	19.25	18.50	14.13
3 months	18.88	18.13	14.13
Commercial Paper - Prime Names			
Directly placed by:			
Finance Companies			
1 week	18.25	17.00	12.88
1 month	17.00	16.25	13.00
3 months	16.25	15.00	11.75
Bank Holding Companies			
1 month	18.25	17.63	13.00
Dealer Placed:			
3 months	17.25	17.00	12.88
New AA Corporate Utility Bond	14.75	14.50	12.05
Tax Exempt			
6 month Project Notes	7.15	7.25	5.65
1 year AAA Bond	7.00	6.75	NA
5 year AAA Bond	7.20	7.00	NA
20 year AAA Bond	8.60	8.25	7.00

This information represents prevailing market yields.
It should not be construed as an offering.
All yields are on the offered side of the market.

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